INVESTSMART

Myths that can hurt your wealth

Myth ...

Higher fees mean higher returns and fees are too small to matter

Presented by **Alan Kohler**, *Editor-in-Chief*

Myth ...

You can time the time

Presented by **Ron Hodge**, *CEO*

Myth ...

Investing ethically means lower returns

Presented by **Nathan Bell**, *Senior Portfolio Manager*

DISCLAIMER

WARNING

This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, seeking advice from a financial adviser or stockbroker if necessary.

DISCLAIMER

This publication has been prepared from a wide variety of sources, which InvestSMART Financial Services Pty Ltd, to the best of its knowledge and belief, considers accurate. You should make your own enquiries about the investments and we strongly suggest you seek advice before acting upon any recommendation.

PERFORMANCE

Past performance is not a reliable indicator of future results. Our performance figures are hypothetical and based on recommendations from Intelligent Investor using stock prices at date of publication. Brokerage costs have not been included. As stocks rise and fall, returns may be negative. We encourage you to think of investing as a long-term pursuit.

INVESTSMART

The myth that higher fees mean higher returns

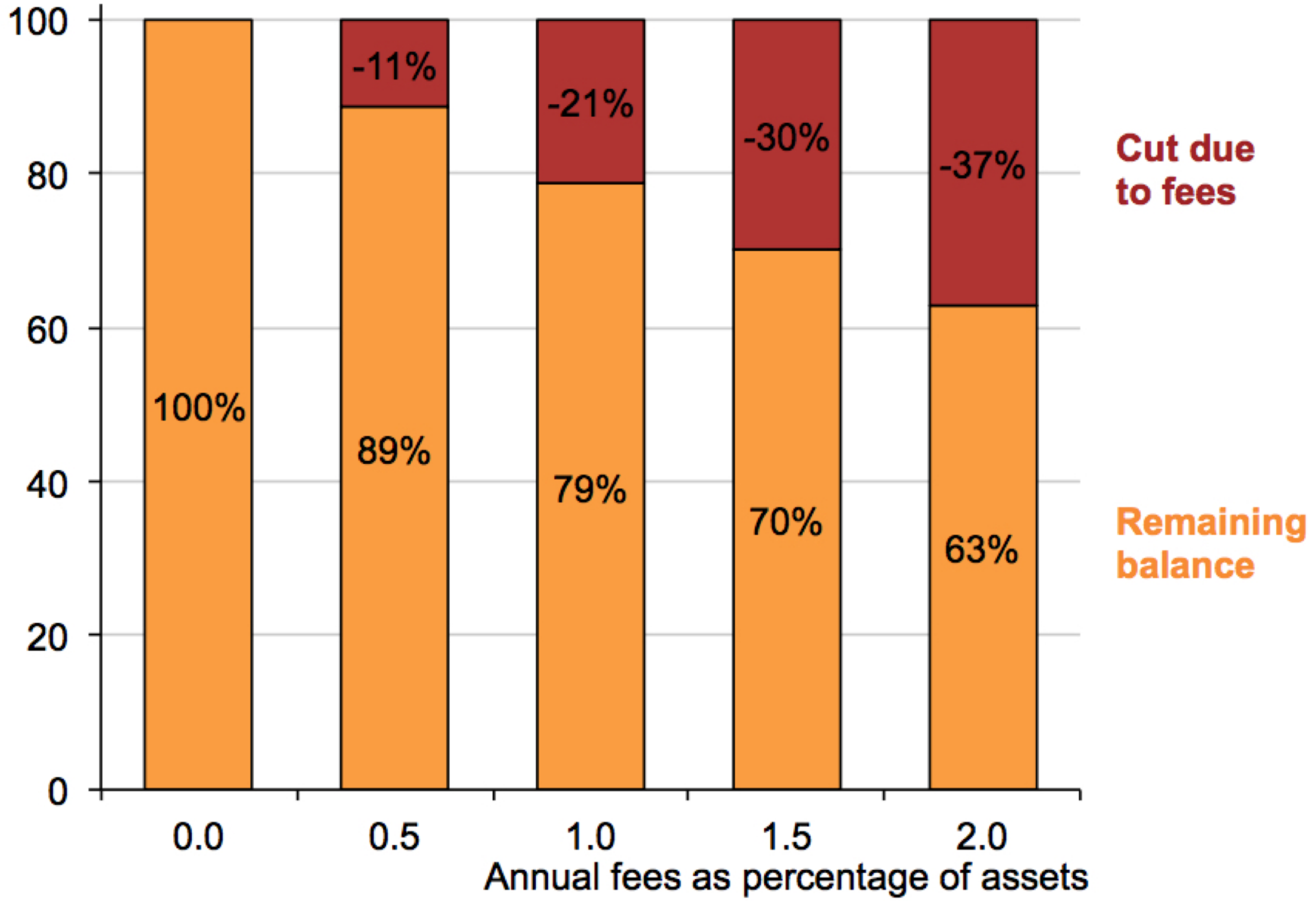
And that fees are too small to matter.

ALAN KOHLER / EDITOR-IN-CHIEF, INVESTSMART GROUP

First …

What a difference a fee makes.

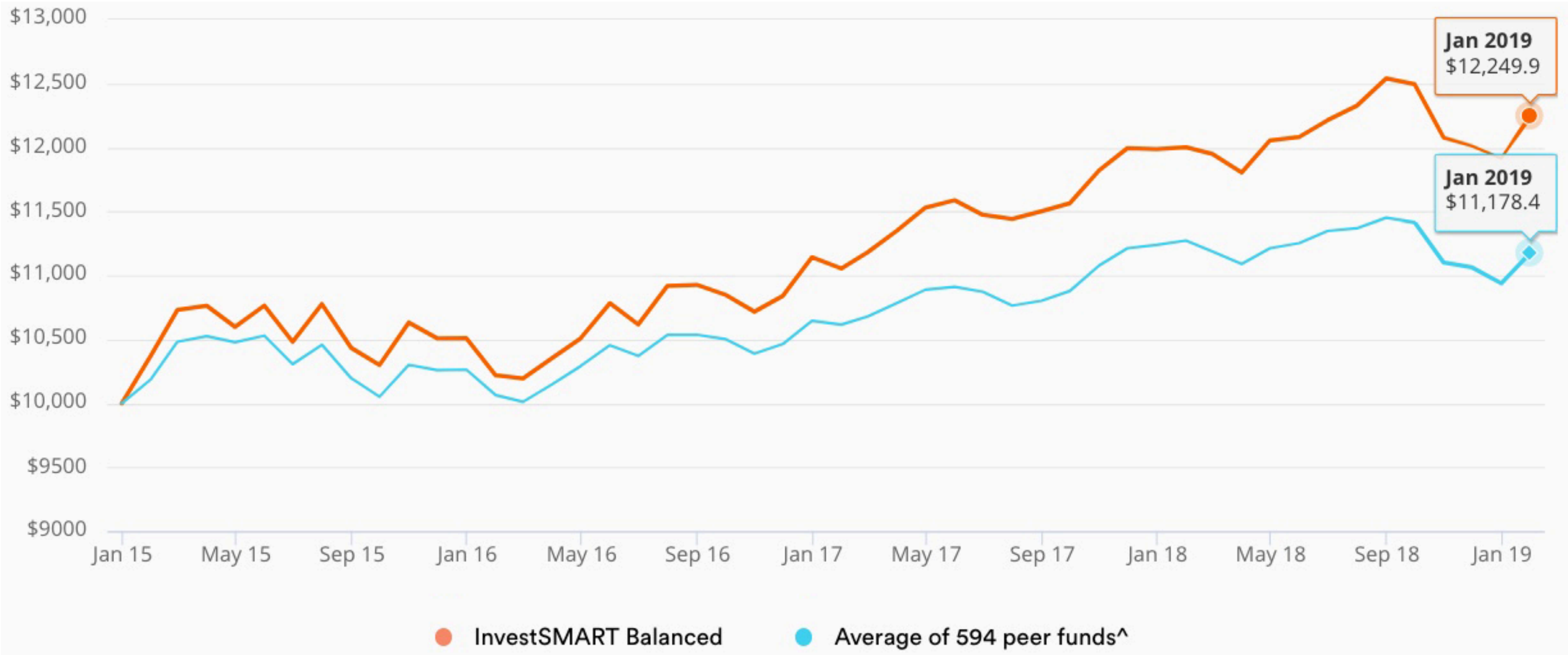
Retirement balances relative to fund with zero fees, per cent



Source: Grattan Institute

InvestSMART's Balanced Fund vs the Rest

Growth of $10,000 as at 31 January 2019



ASX 200 Accumulation Index annual return over the past 20 years: 8.29%

Starting sum $100,000 at 8.29% final sum = $491,770

With a fee of	0.5%	1.0%	2.0%
Final sum equals	$448,300	$408,490	$338,720
Difference is	$43,470 8.8%	$83,280 16.9%	$153,050 31.1%

ASX 200 Accumulation Index annual return over the past 20 years: 8.29%

Starting sum $100,000 at 8.29% final sum = $491,770

With a fee of	$451 p.a.
Final sum equals	$482,750
Difference is	$9,020 1.8%

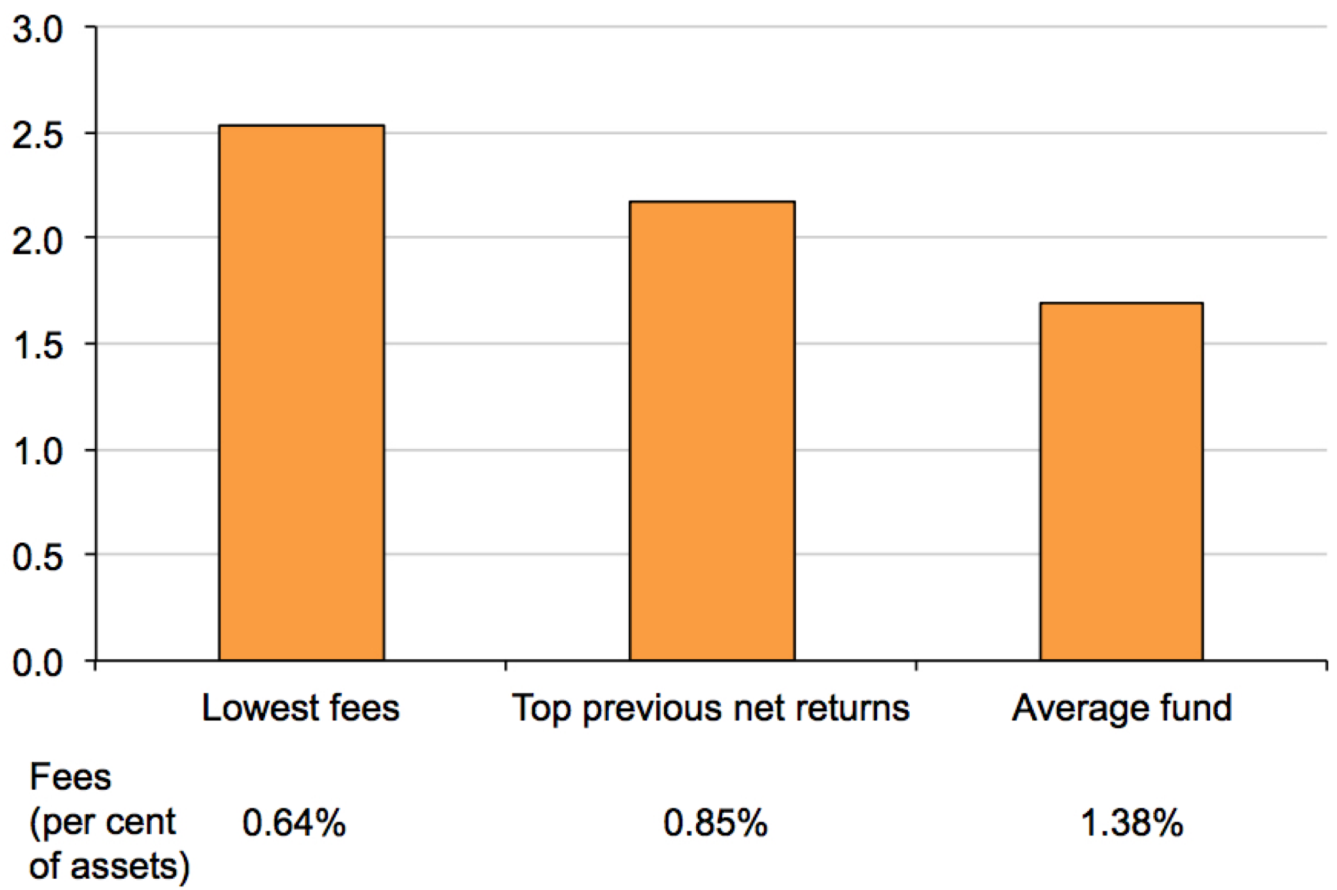
$500 monthly deposit for 20 years at 8.29% , final sum with no fee = $305,353

With a fee of	1.0%	2.0%	$451 p.a.
Final sum equals	$269,830	$239,126	$296,333
Difference is	11.6%	21.7%	2.9%

Second ...

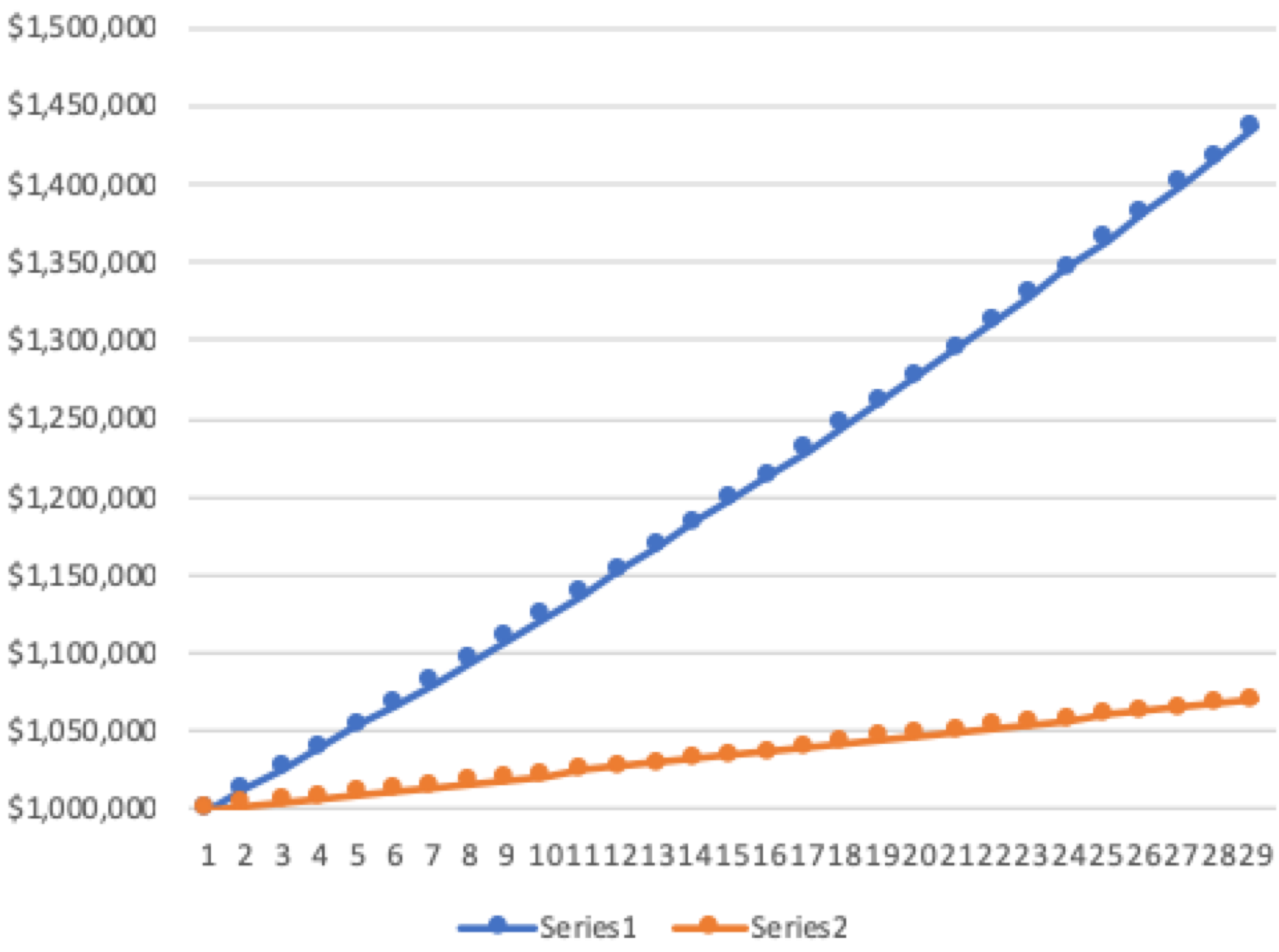
But do you get what you pay for?

Subsequent net real annual returns of funds based on previous fee and previous returns. 2006 - 2013, per cent, annual



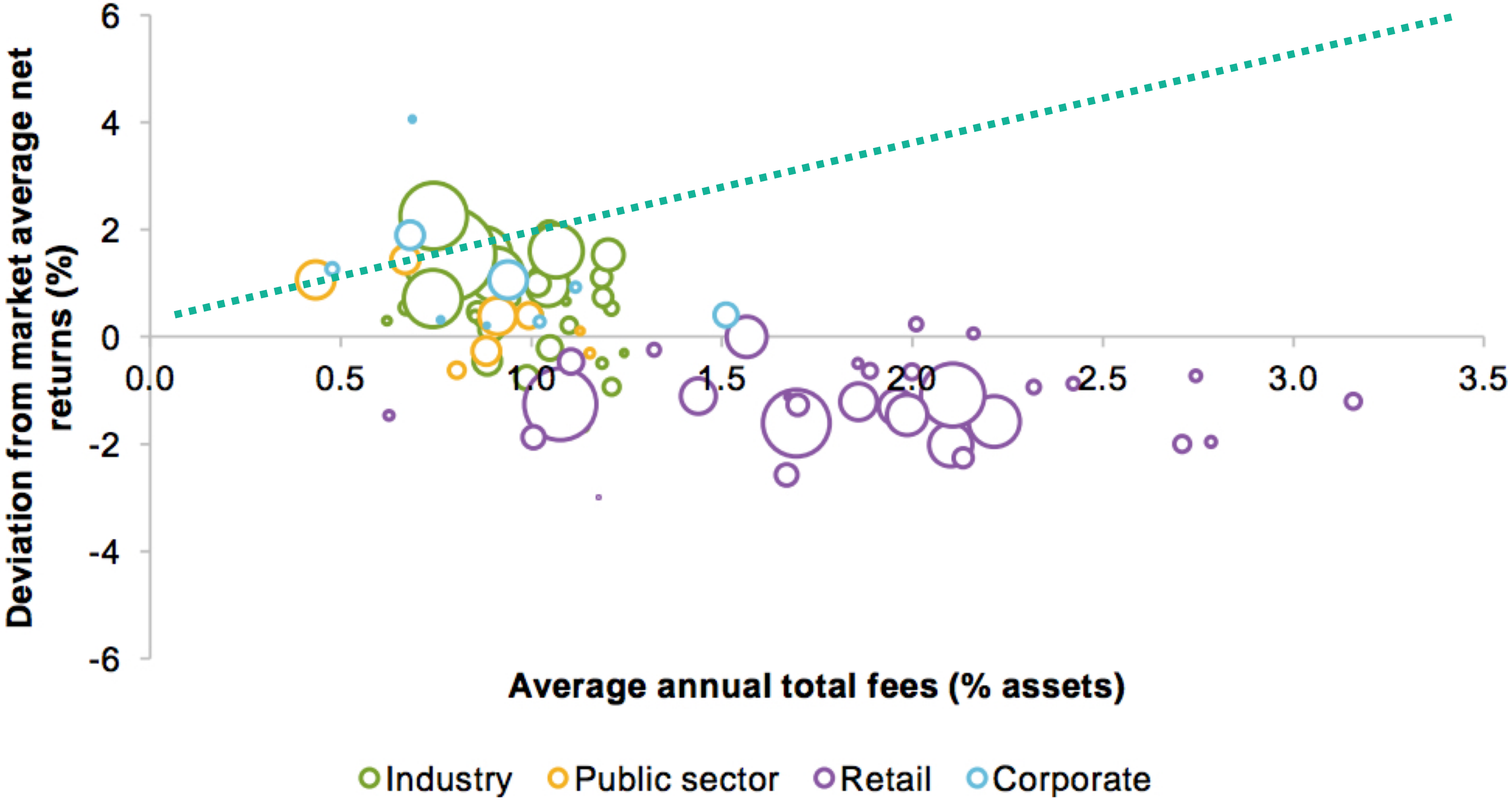
Source: Grattan Institute

Compounding fees; 1.3% vs 0.2% + $451



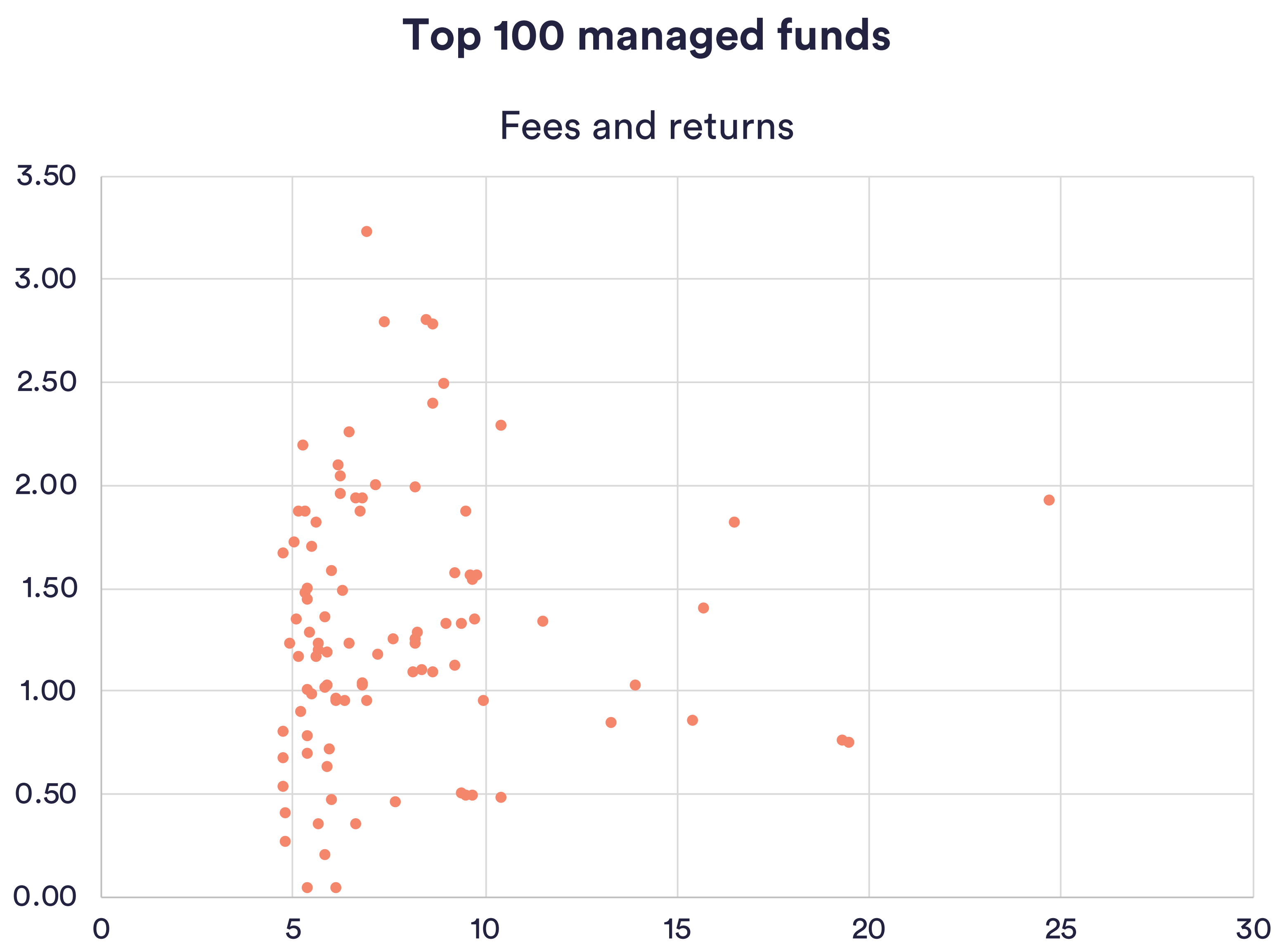
Average annual figures, fund level, 2006 - 2017

Bubble size represents total assets



Source: Productivity Commission

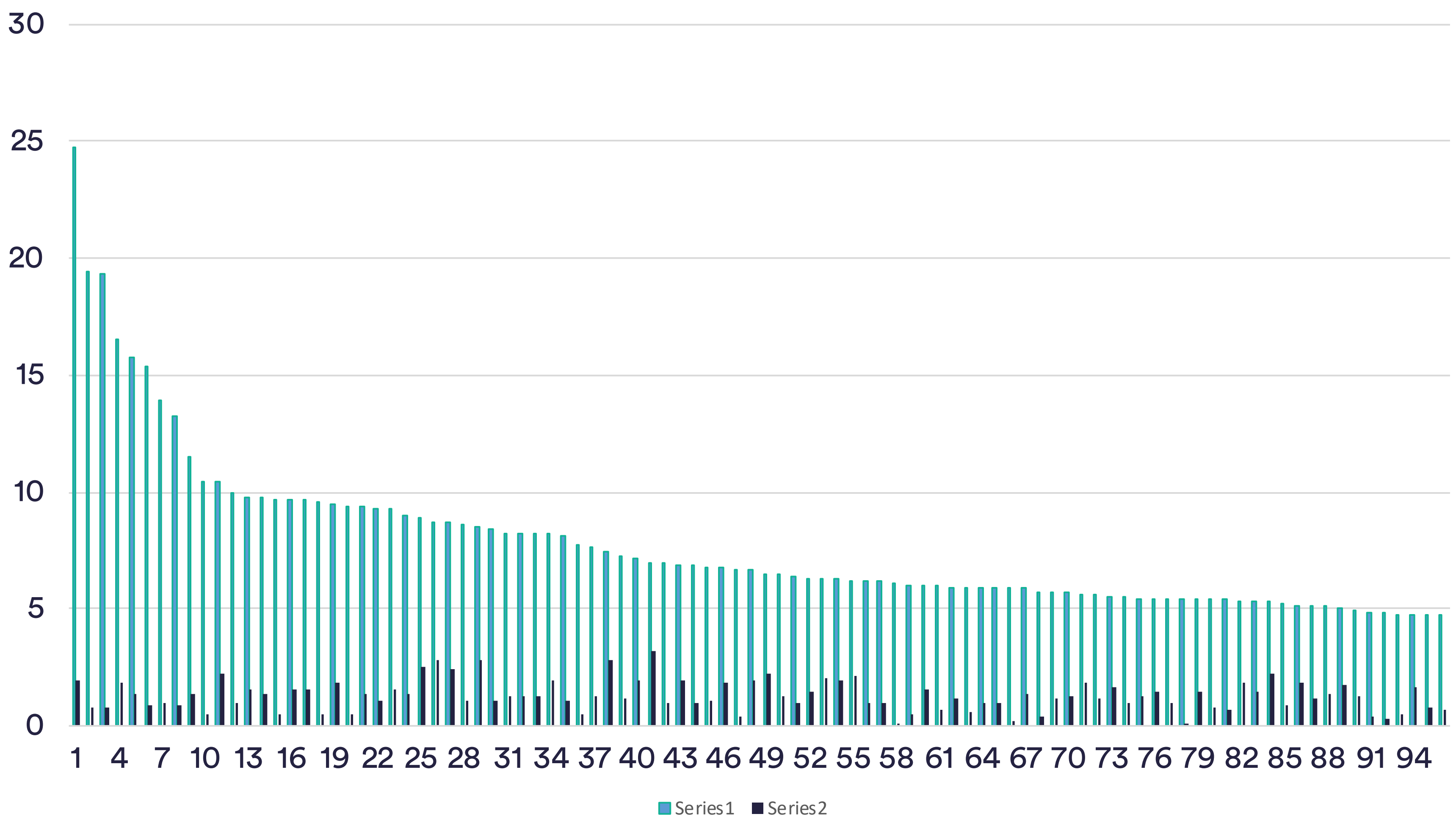
INVESTSMART



INVESTSMART

Top 100 managed funds

Fees and returns



INVESTSMART

"God grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference.

Reinhold Niebuhr

INVESTSMART

Busting the myth of market timing

RON HODGE / CEO, INVESTSMART GROUP

WARNING

This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, seeking advice from a financial adviser or stockbroker if necessary.

DISCLAIMER

This publication has been prepared from a wide variety of sources, which InvestSMART Financial Services Pty Ltd, to the best of its knowledge and belief, considers accurate. You should make your own enquiries about the investments and we strongly suggest you seek advice before acting upon any recommendation.

PERFORMANCE

Past performance is not a reliable indicator of future results. Our performance figures are hypothetical and based on recommendations from Intelligent Investor using stock prices at date of publication. Brokerage costs have not been included. As stocks rise and fall, returns may be negative. We encourage you to think of investing as a long-term pursuit.

Market timing is an intriguing concept.

The dips in the market are so painful, that if you could simply sidestep them and only own stocks at the time the market is rising, perhaps you could save yourself a lot of pain.

We are hardwired to try and time the markets.

WE CAN'T HELP OURSELVES

ABC NEWS

Why debt will be the cause of the next stock market jolt

By business editor Ian Verrender

Posted 12 Nov 2018, 6:17am

For most investors, it was a month to remember for a

October turned i
roiled global ma
this year's gains

While the fears
they haven't ent

For while the ol
on a wall of wor
the fearful and s
within the global
potentially grindi

The Sydney Morning Herald

Property is falling, shares are shaky. Here's where to put your money

Prices of just about all major investment categories are falling, leaving investors scratching thei heads about where to find a decent return.

The property market is plummeting, while sharemarkets both in Australia and abroad are lookir shaky, prompting fears of a crash. Interest rates in the US and around the world are on the way u and President Donald Trump appears determined to ramp up the trade war with China.

As a result, asset allocation - the proportion of your money you assign to different asset classes, such as shares, bonds, property and cash as opposed to individual investments - is more import than ever. If your portfolio is built on good foundations, it won't be washed away by the incomin

The Sydney Morning Herald

'Prepare contingency plans': OECD warns Coalition government on falling house prices

By Shane Wright

December 10, 2018 — 7.38am

The Australi
widespread
nation's bigg

In a major d
the Paris-ba
planning no
the nation's

BARRON'S

THE DOW JONES BUSINESS AND FINANCIAL WEEKLY

INVESTING FEATURE

Trump Says the Stock Market Will Crash if Democrats Win. Is He Right?

Print Article

his real
aken to
own, I
ne of a string

FINANCIAL REVIEW

Markets

Labor election win to hurt high dividend stocks

The stock market's most popular dividend-paying stocks including the banks, miners and Telstra could have billions of dollars wiped off their valuations if Labor wins the next federal election, as polls suggest.

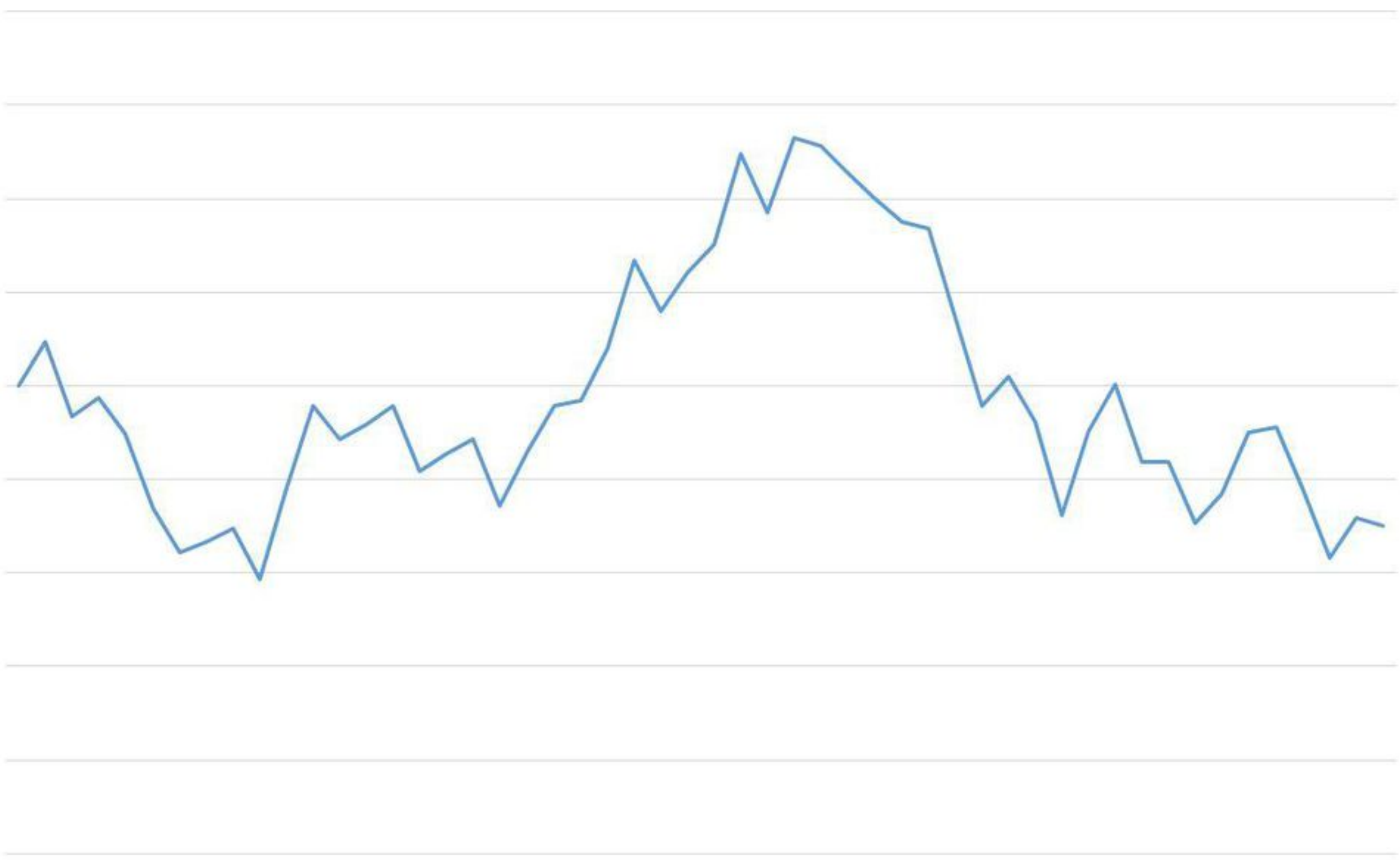
Loss aversion

We prefer to avoid a loss than to acquire an equivalent gain: it is better to not lose $5 than to make $5.

Dread effect

Behavioural psychologists call it the dread effect. High-consequence, low-probability events trigger something in our brain that screams 'Swim. Swim as fast as you can'.

Even so-called “experts” give it a go



Apophenia is an error of perception.

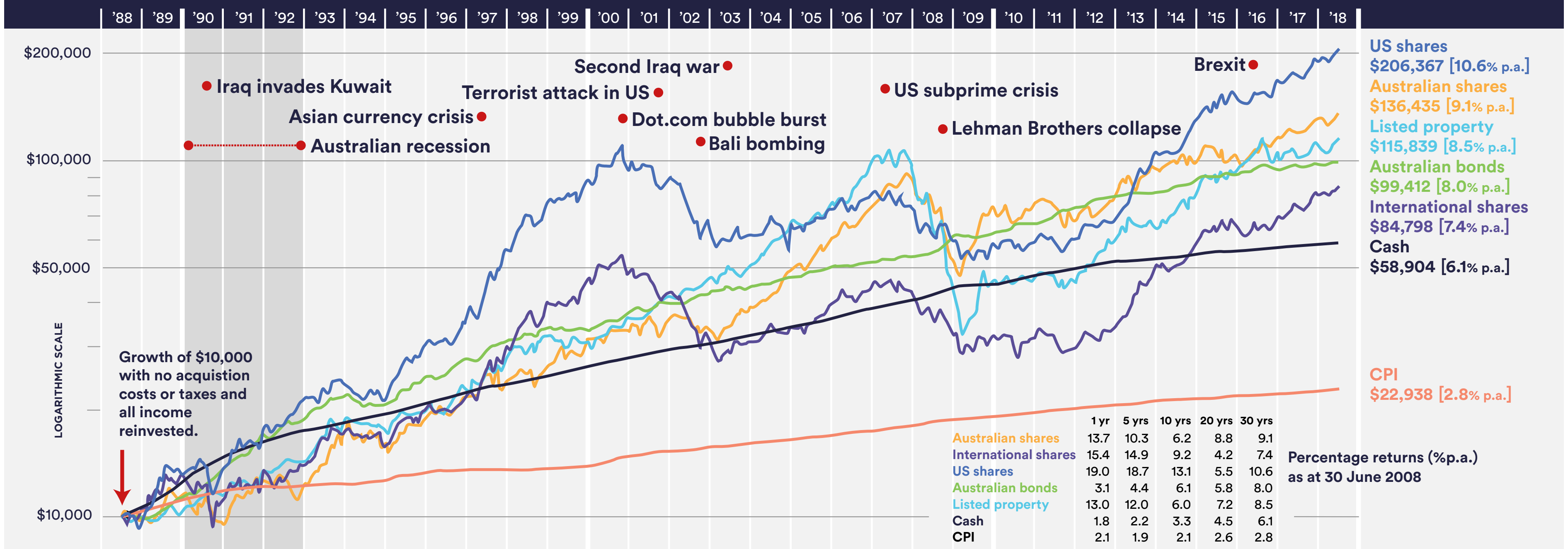
The tendency to interpret random patterns as meaningful. As humans we can't help but search for patterns and meaning everywhere we look.

Market timing challenges

- Unpredictable markets
- Opportunity Cost
- Unintended costs

Markets can be unpredictable in the short term

Market returns – 1 July 1998 to 30 June 2018



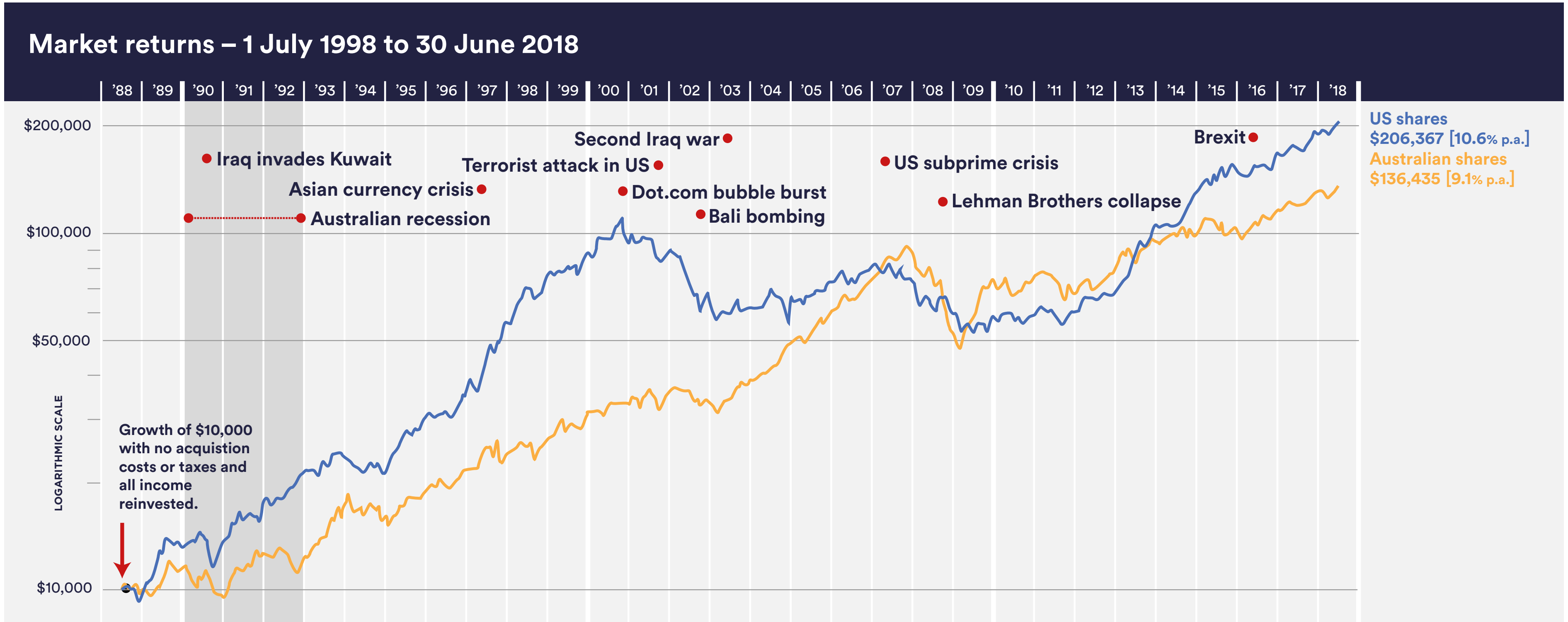
	1 yr	5 yrs	10 yrs	20 yrs	30 yrs
Australian shares	13.7	10.3	6.2	8.8	9.1
International shares	15.4	14.9	9.2	4.2	7.4
US shares	19.0	18.7	13.1	5.5	10.6
Australian bonds	3.1	4.4	6.1	5.8	8.0
Listed property	13.0	12.0	6.0	7.2	8.5
Cash	1.8	2.2	3.3	4.5	6.1
CPI	2.1	1.9	2.1	2.6	2.8

Percentage returns (%p.a.) as at 30 June 2008

Source: Andex Charts Pty Ltd. Data for this calculator has been supplied by Andex Charts Pty Ltd and is believed to be correct.
No responsibility is accepted for inaccuracies or omissions.

INVESTMART

Market timing can lead to bad decisions

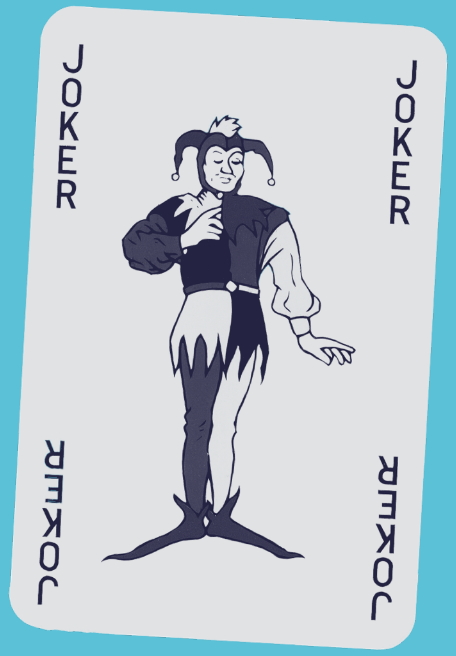


Source: Andex Charts Pty Ltd. Data for this calculator has been supplied by Andex Charts Pty Ltd and is believed to be correct.
No responsibility is accepted for inaccuracies or omissions.

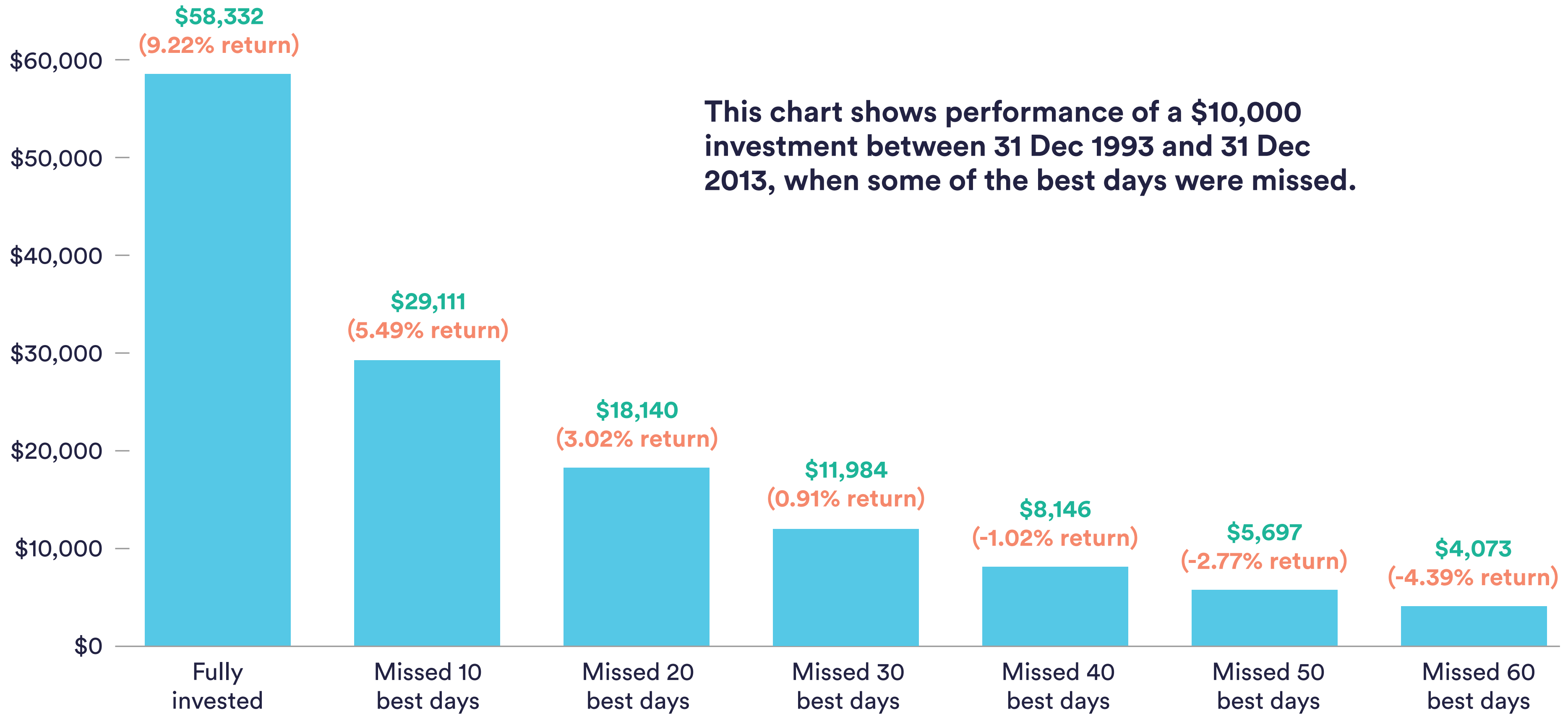
INVESTSMART

Random Walk Theory

Stock price changes are independent of each other, past movements cannot be used to predict future movements.



Opportunity cost: missing the best days



Source: JP Morgan 2014 Guide to Retirement

INVESTSMART

The folly of market timing

"Over periods of 7 to 57 years, the probability of losing from market timing is double the chance of winning.

Robert Jeffery

"If an investor is right 59% of the time, the return has the same as the average index.

Keppler Asset Management

Costs to market timing

- Apart from the opportunity cost of missing out on some of the best upswings
- Time is money
- Brokerage eats away at returns
- More taxes equals less capital compounding

Market timing is a pipe dream for most investors.

In 2016 a Dalbar study found investors, did a lot worse than the S&P 500 over 20 years by 4.67% vs 8.19% or $249,000 vs $483,000 if you started with $100,000. The beauty of compounding returns!

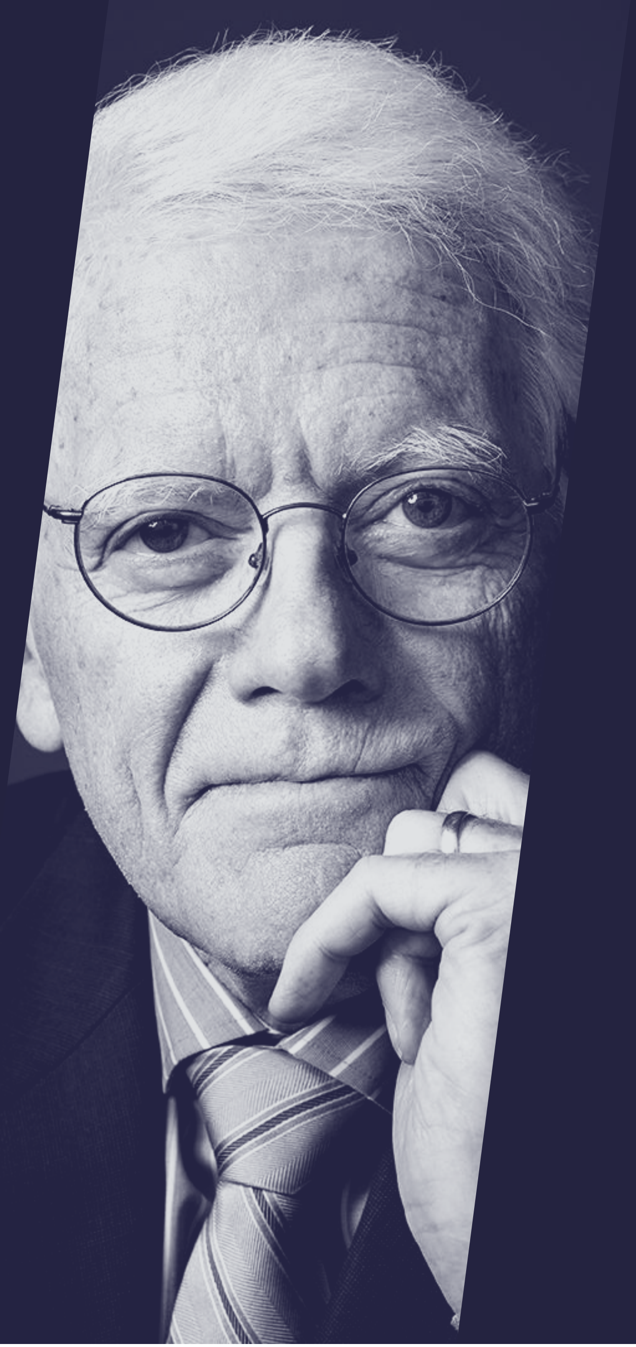
"The data shows that the average investor did not stayed invested for a long enough period of time to reap the rewards that the market can offer more disciplined investors. The data also shows that when investors react, they generally make the wrong decision."

	Annualised return, 1996 - 2015
S&P 500	8.19%
Average investor	4.67%

Source 2016 Dalbar Quantitative Analysis of Investor Behavior Study

I can't recall ever once seeing the name of a market timer on Forbes' annual list of the richest people in the world. If it were truly possible to predict corrections, you'd think somebody would have made billions by doing it.

Peter Lynch



INVESTSMART

Time in the market not market timing

“

Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it. Compound interest is the most powerful force in the universe.

Albert Einstein

- Long term your investment returns are not compounding as much in cash
- Start small if worried and build a well diversified portfolio over time
- Contribute **regularly** and **consistently** to average your entry price and smooth out volatility.

INVESTSMART

Don’t let three letters ruin your retirement

NATHAN BELL / PORTFOLIO MANAGER

It's time to take ESG seriously

- Higher returns
- Increasing risks for businesses
- Investors are becoming activists
- The fall of the Professional CEO
- Governments are getting involved
- ESG is becoming the norm

What industries are out?

- Industry standard negative screen
- Standards evolving
- Currently avoiding businesses that earn most of their revenue from the following sources:
    - Fossil fuels; Pay day lenders; Alcohol; Gambling; Junk food and beverages; Supply chain concerns; Armaments

Responsible Investment Association Australasia (RIAA)

	1 yr	3 yrs	5 yrs	10 yrs
Average Responsible Investment Fund	11.3%	9.8%	11.7%	5.4%
Large Cap Australian Share Fund Average	12.2%	8.0%	9.7%	3.5%
S&P/ASX300 Accumulation Index	11.9%	8.8%	10.2%	4%

Source: RIAA Responsible Investment Benchmark Report 2018

II recommendations

Ethical vs Unethical

14.8% vs 10.1%

Increasing risks from ESG concerns

- The market or government will expose you
- Hayne (Financial Services) Inquiry
- Aged Care Inquiry – Who's next?
- Renewables replacing fossil fuels
- Coca Cola – Sugar taxes; changing consumer preferences
- Increasing shareholder activism e.g. NAB
- Millennials more socially conscious

“

**To improve is to change;
to be perfect is to change often.**

Winston Churchill

- Not changing the ‘Il way’
- Stocks must pass fundamental hurdles
- Adding an ESG filter to reduce risk

"It was never my thinking that made the big money for me, it was always my sitting.

Jesse Livermore

High quality businesses

- High insider-ownership
- Long growth runways
- A large discount to intrinsic value

Special situations

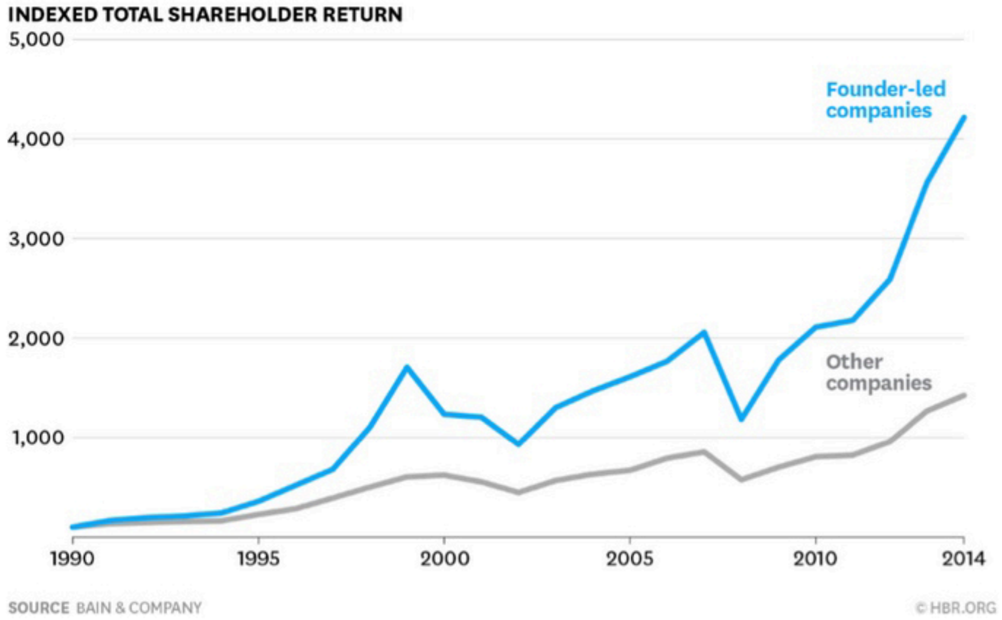
- New CEO
- Re-capitalised
- Spin-offs
- Hidden assets

THE BEST CORPORATE GOVERNANCE IS HAVING SKIN IN THE GAME

Founder-led companies vs S&P 500

Founder-led companies outperform the rest

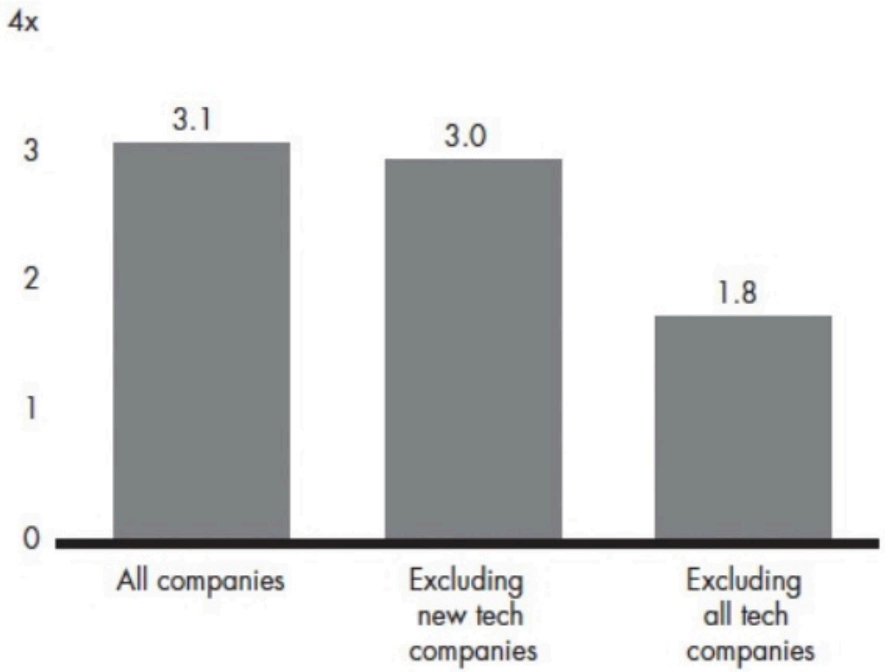
Based on an analysis of S&P 500 firms in 2014



Source: Bain & Company via Harvard Business Review

True even with tech companies excluded

Founder's Index vs other S&P 500



Source: Consultancy.UK

WHAT HAPPENS WHEN YOU DON'T HAVE INSIDE OWNERSHIP?

ABC NEWS

Print | Email | Facebook | Twitter | More

BHP's $50 billion shale oil blunder

By business reporter Stephen Letts
Updated 23 Aug 2017, 1:39pm

Roll the clock back to February 2011, and BHP announced its arrival as a big and very ambitious player not only in the US shale oil game, but global energy.

It slapped $US4.75 billion ($6 billion) down on the table to buy the rights from Chesapeake Energy to around half-a-million acres of prospective shale gas reserves at Lafayette in Arkansas.

By June, it upped the bet significantly.

This time, it was $19 billion, in a friendly takeover of Petrohawk and its 1 million acres of prime Permian Basin shale oil real estate stretching from Louisiana to Texas.

Oil was on the tear. It had risen from its GFC lows of around $US40 a barrel, to be up around

RELATED STORY: BHP pro

RELATED STORY: BHP Bil slashed

RELATED STORY: BHP Bil as too costly and risky

Key points:

- Energy analysts around $13 billion invested
- Within two years price collapsed 7
- BHP favours a tra patient in getting

The Sydney Morning Herald

WORLD

Rio Tinto's billion-dollar mess: 'unprincipled, shameful and evil'

By Daniel Flitton
19 August 2016 — 4:12pm

A A A

The gaping hole carved into mountains was at one point the world's largest open-cut copper mine. Right on Australia's doorstep, it delivered riches beyond imagining and a mess big enough to tear a country apart.

The Guardian

AMP chair Catherine Brenner resigns after scandals uncovered by banking commission

Brenner leaves reported $660,000-a-year role, as directors have 25% of fees stripped for this year

The chair of financial services giant AMP, Catherine Brenner, has resigned from her $660,00-a-year role, the latest casualty from the unfolding scandals uncovered by the banking royal commission.

Australia's largest wealth manager will also strip directors of 25% of their fees for the rest of the year. AMP's general counsel, Brian Salter, is also leaving, and the company has warned there will be "employment and remuneration" consequences for others involved in the fees-for-no-service scam.

CSL vs BHP

- Superior Return On Equity
- Truckloads more Free Cashflow
- More consistent profits and dividends
- Avoiding yesterday's heroes
- Focus on sunshine industries

ESG is becoming the norm

- Reflects changing social attitudes
- Increasing pressure on governance
- Reducing risk is good business
- Woolworths considering selling its pubs
- Management remuneration e.g. Dulux

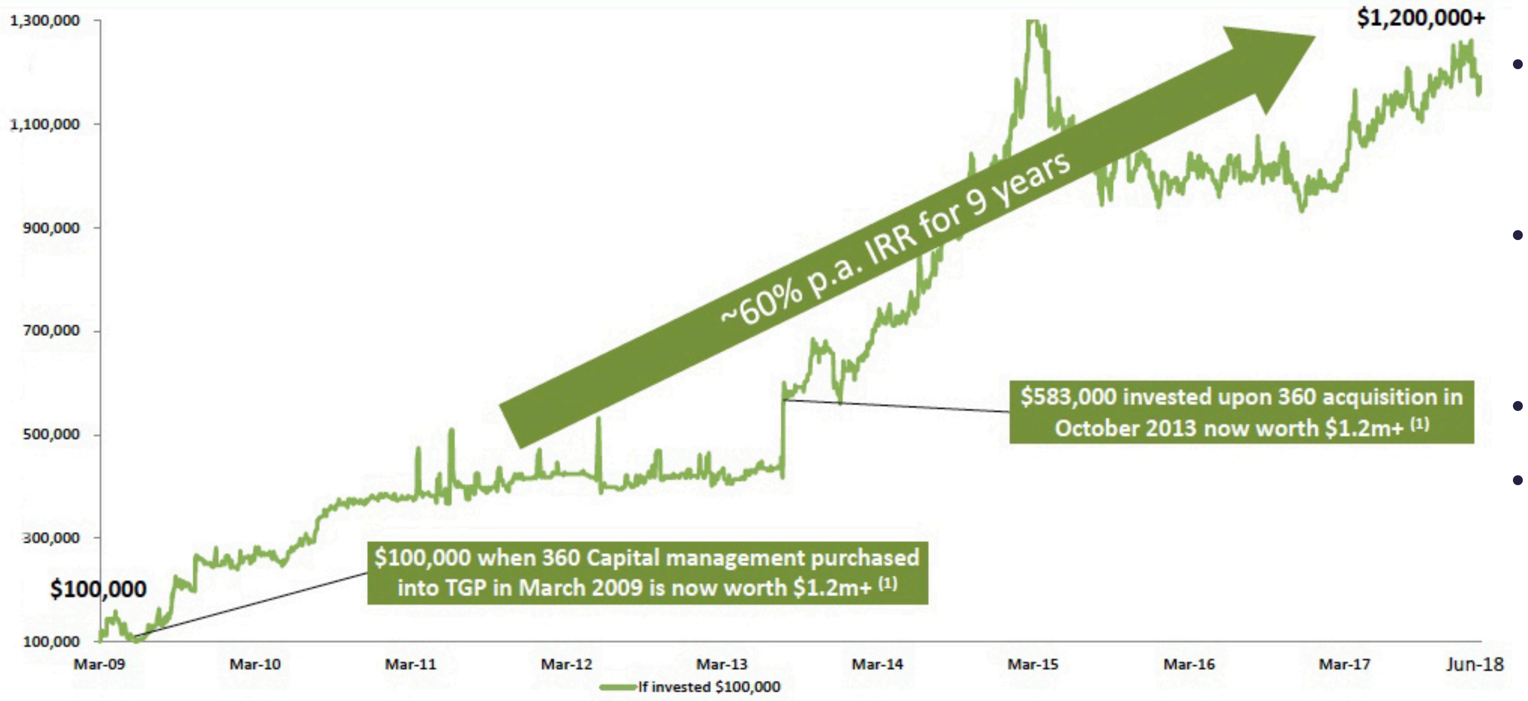
It's easy

- Buy and sell just like a regular stock
- Ready-made portfolio
- Same Intelligent Investor long-term approach
- Focus on high quality businesses
- Long-term holdings help minimize tax
- Semi-annual distributions
- Regular reporting and candid communication
- Management fee; no performance fee

360 Capital

ASX:TGP

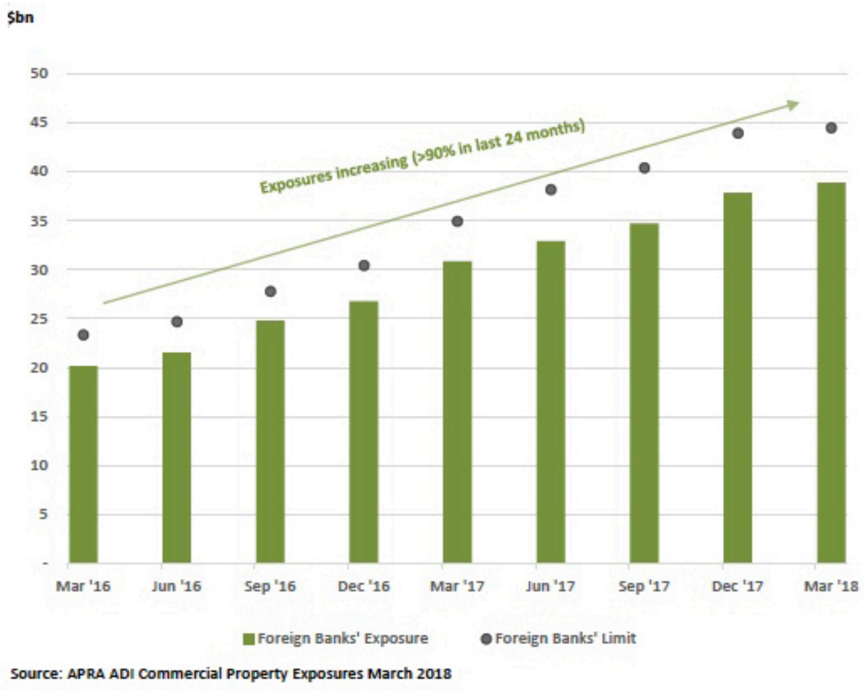
TGP's total return post 360 Capital's management involvement

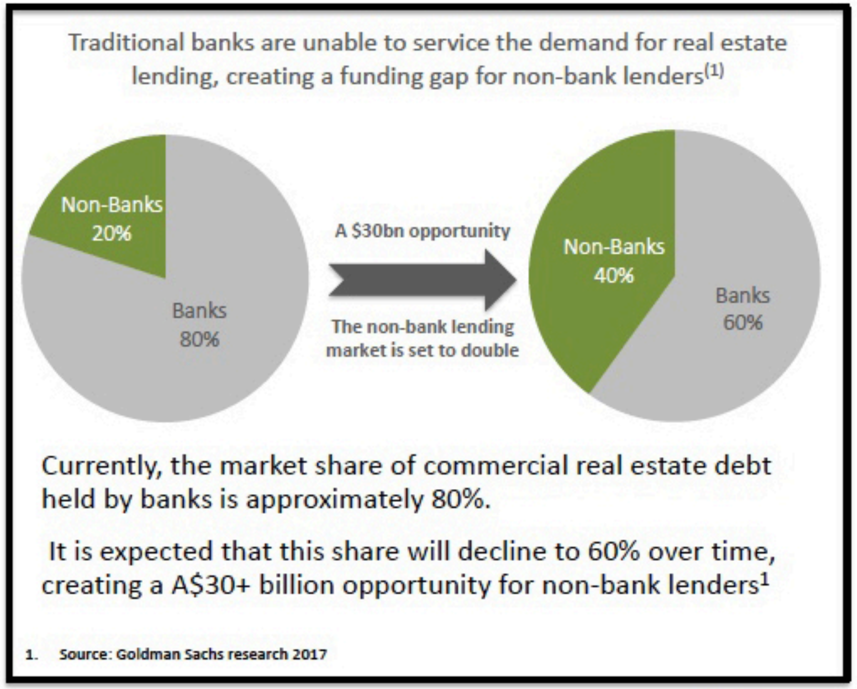


- Commercial property investment and funds management group
- Market Cap: $207m; Trades at NTA; no value for 50% stake in AMF Finance
- CEO: Tony Pitt
- Major Shareholder: Tony Pitt (27%)

Source: TGP 2018 Annual Results Presentation

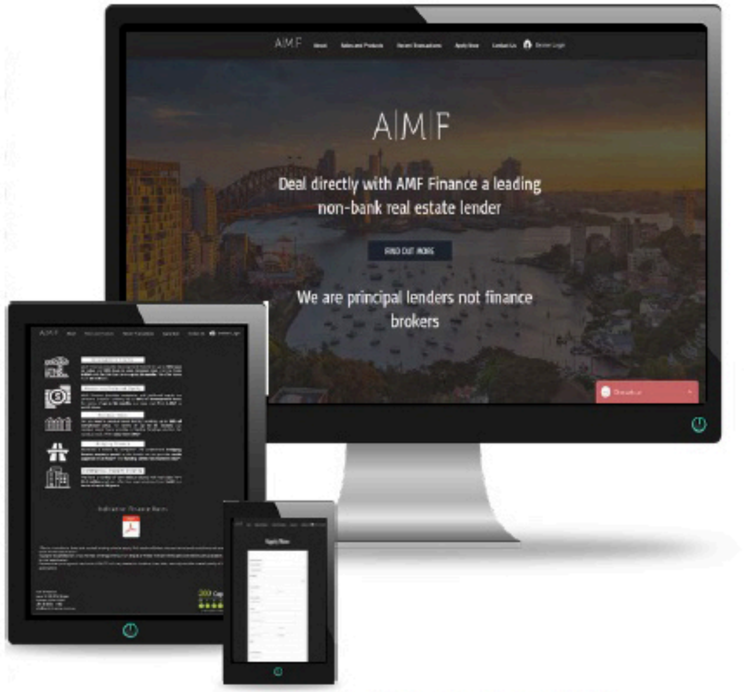
Foreign banks increasing exposures, a sign of increased regulatory pressures on local major banks





Source: TGP 2018 Annual Results Presentation

AMF Finance



www.amf-finance.com.au

- Over 7,500 finance brokers get regular updates
- Broker accreditation and login
- Tracks every DA submitted in Australia updated up to four times per day
- Introducer incentivisation program
- On-line applications across eight loan products
- Over 33,000 developer, advisors, agents, architects etc receiving regular correspondence
- Standardised loan documentation; capable of financial close within 24 hours
- Digital marketing strategy has generated significant deal flow and market awareness

Source: TGP 2018 Annual Results Presentation

Q&A

Contact us on **1300 880 160**

Email us at **support@investsmart.com.au**